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California Energy Commission
Dockets Office
1516 Ninth Street, MS-4
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**RE: Docket No. 04 IEP 1K – Sempra Energy Utilities Comments on the
2005 Committee Draft Transmittal Report**

Dear Commissioners:

On behalf of the Sempra Energy Utilities, San Diego Gas and Electric and Southern California Gas Company, attached are comments in response to the 2005 Committee Draft Transmittal Report, Range of Need of Policy Recommendations to the CPUC. We appreciate the opportunity to provide comments and participate in this important process to ensure that California achieves its energy resource needs.

Sincerely,

Bernie Orozco

**Sempra Energy Utilities Comments on the
Committee Draft Transmittal Report, Docket No. 04 IEP 1K**

During 2005, the California Energy Commission (CEC) has undertaken extensive proceedings to address a wide range of energy issues important to California as part of the CEC's Integrated Energy Policy Report (IEPR) proceeding. The CEC has prepared a Draft Report, released on October 25, 2005, that will be transmitted to the California Public Utilities Commission (CPUC) and used in the CPUC's 2006 resource planning process. The Draft Transmittal Report communicates to the CPUC the CEC's assessment of range of need and policy recommendations for this joint resource planning effort.

San Diego Gas & Electric Company (SDG&E) appreciates the hard work of the CEC throughout this undertaking, and particularly recognizes the dedication of the IEPR Committee and CEC staff in this process. SDG&E and SoCalGas, in addition to other utilities and stakeholders, contributed substantial analysis and data as part of this effort and have also participated in many of the IEPR hearings, including the one held on November 4, 2005 addressing the Draft Transmittal Report. SDG&E would also note that many of its comments offered regarding the Draft Committee Report,¹ dated September 2005, are equally applicable to this Draft Transmittal Report.

To summarize, SDG&E urges the CEC to recognize that a balanced approach to solving the state's most vexing and critical resource and transmission planning issues will be essential to achieving adequate, reliable, and affordable energy supplies for all Californians. Most would agree that today's pressing problems require additional supplies and the transmission needed to get those supplies to loads. Even in this simple statement is a requirement for balance and trade-offs, however. New generation, built far from load centers, will require new transmission. Existing supplies, denied access to market by transmission congestion, cannot address load needs. SDG&E is concerned that the current Draft CEC IEPR Reports have not sufficiently achieved this balance and send conflicting messages.

SDG&E also observes that at times the utilities receive more policy guidance and targets from regulators than can realistically be accommodated into their resource plans. Trying to simultaneously meet every goal, no matter how individually worthy, can result in greater than necessary resource additions at higher than necessary costs to consumers. Thus, policy guidance from this IEPR should come with the flexibility needed to allow those carrying out the policy to achieve the goals in a manner that balances meeting the goals with reasonable costs for consumers. In sum, achieving a goal one year later than planned at a lower long-term total cost to consumers should not be viewed as failure, but should be an acceptable plan.

The Draft Transmittal Report reflects a lot of hard work by the CEC Staff, and many positive aspects of the Draft Report are not addressed here by SDG&E. Rather, we focus on several areas that SDG&E strongly urges the CEC to revise before adopting a final report for transmittal to the CPUC. If the CEC is unable to make the changes advocated here, SDG&E will continue to

¹ See SDG&E Comments filed on October 14, 2005.

challenge these aspects of the CEC's analysis to the extent these issues are advanced in the CPUC's resource planning proceeding.

Load Forecast and Uncommitted Energy Efficiency

SDG&E has serious concerns regarding the combination of the load forecast and uncommitted energy efficiency (EE) amounts used in the report for years 2009 – 2016. SDG&E cannot support the report as currently drafted because subtracting future EE goals from Staff's load forecast results in a net need that substantially underestimates capacity and energy needs from 2009 through 2016. As Staff stated in the Transmittal Report, "Savings that SDG&E attributes to future DSM programs may to some extent be already accounted for in the Energy Commission's model as part of the effects of building decay, equipment replacement, price effects, and building and appliance standards" (Draft Report, p. 80). SDG&E agrees with this statement and believes future EE efforts are already embedded in the Staff load forecast. However, the report also shows the full amount of future EE goals as a resource. Subtracting the full amount of uncommitted EE double counts the impact of future EE resulting in an incorrect assessment of future resource needs.

If the load forecast and uncommitted EE are adopted as presented in Staff's resource plan, the resulting capacity need for SDG&E's service area would only increase by a total of 75 MW from 2009 to 2016, or roughly 10 MW per year. To put this in perspective, Staff's load forecast including all energy efficiency savings for the years 2005-2008 projects an average load growth of 82 MW per year. In recent history, SDG&E has experienced peak load growth in excess of 100 MW per year. Thus, the use of Staff's load forecast combined with the total amount of uncommitted EE produces an unrealistic resource plan that will underestimate future resource needs by about 500 MW.

This problem of double-counting future EE savings does not apply only to SDG&E. Using the area peak demand forecasts and the uncommitted EE savings for all three of the IOUs as presented in Tables B-5, B-11, and B-17, one can calculate that the combined capacity need of all three IOUs totals 405 MW for the 2009-2016 period. Therefore, adoption of this resource plan will seriously underestimate the statewide need for resources.

Lastly, SDG&E notes that although the Transmittal Report claims to provide a range of need, the range is so narrow that for all practical purposes there is no range. Staff's low scenario is only 37 MW below the base case in 2016 and their high scenario is 118 MW above the base case in 2016. A range of only 3% over twelve years into the future is much too narrow.

Resource Accounting

In reviewing the tables for SDG&E (B13-B18), a number of changes need to be made to properly account for the total resource need and how reserves are calculated. These changes are needed because the current tables would result in SDG&E acquiring substantially more resources than are needed and result in a 40-60% reserve margin depending on the year. This excess reserve is the result of three major items that all need to be corrected before the final tables are submitted.

First, adding procurement to account for the potential replacement of aging power plants is unnecessary. SDG&E's submitted resource plans meet the forecasted loads and the required reserves for SDG&E's bundled load. Thus, SDG&E has already addressed this issue. SDG&E's plan added resources that replace the aging plants (or contracted with them) as a supply source. As such, there is no need to add an increment of procurement in either the energy or capacity table.

It should also be noted that the possible impact of retiring plants will impact supplies available to all customers, not just bundled customers of the IOUs. SDG&E is already undertaking long-term planning and an orderly procurement process to deal with these older units. SDG&E is adding over 1,100 MW of new plants to its service area and is currently studying the addition of a major new transmission line, both of which will allow for the retirement of some of the existing aging plants. SDG&E also plans to undertake its future procurement well in advance of its needs to allow new plants to compete with the older plants.

Second, the tables calculate an amount of capacity needed to meet a 15% reserve margin based on total system load, not the IOUs' bundled load shown in the table. This would in essence be requiring the IOUs to procure reserves for all load serving entities (LSEs). The CPUC has adopted a resource adequacy program that requires each LSE to procure its own reserves. The IOUs are not responsible for procuring reserves for the total load in the service area. Thus, any reserve requirement in the table should be reserves for the IOUs' bundled load only.

Third, the table as presented would result in SDG&E having to procure reserves for uncommitted energy efficiency and uncommitted demand response programs. This is contrary to the cost benefit analysis of these programs which assumes that these programs eliminate the need for reserves. These uncommitted resources will reduce the load in the future and thus reduce the need for reserves. The tables should either move these resource options up in the table and subtract them from load prior to calculating reserves, or "gross up" the amount of capacity available from these resources by 15%.

Committed Interruptible and Dispatchable Demand Response

The line for Existing Interruptible/Emergency Programs for SDG&E is currently not correct. At the time the original forms were submitted to the CEC, SDG&E had 6 MW of committed interruptible programs and 30 MW of committed dispatchable demand response programs. At a very minimum, this total should be shown on this line and the line relabeled to state that it includes dispatchable demand programs as well as interruptible programs. However, it should be noted that since the forms were submitted, the CPUC has approved additional programs and SDG&E currently has programs that total 86 MW of committed interruptible and dispatchable demand response programs.

Need to Update All Data Items

The report states that a number of line items in the tables will need to be updated and a number of them will not need to be updated as part of the CPUC's long-term procurement planning process. The reality is that all items should be updated. The data used by the CEC in these tables represent data provided to the CEC on March 1 and April 1, 2005. To meet these deadlines, the data had to be gathered months in advance. The CPUC's long-term procurement

planning process should use the best data available at that time, and not data that in many cases will be over a year old. Because the IOUs will make financial commitments on behalf of their customers based on the outcome of the CPUC process, the CPUC decision should rely on the best available data. The IOUs will need to be able to update all line items. These will include but not be limited to updates to the load forecast to reflect 2005 actual, new commitments, changes in capacity ratings of units, changes necessary to comply with the CPUC's resource adequacy proceeding decision, and changes in resources that have been approved by the CPUC since the CEC data was submitted. Staying with year old data will not serve the interests of ratepayers.

Other Items

In Section 7.3.1.4, the report implies that all Combined Heat and Power (CHP) is distributed generation, which is incorrect. In fact, the majority of the CHP that sells back to the IOUs are large generation stations that do not fit the definition of distributed generation. The report should treat DG and CHP as two different and distinct items.

SDG&E also objects to the report's reference to a claim that the lack of long-term contracts hinders the development of renewables (Section 3.1.1, page 10). All of the contracts SDG&E has executed with renewables have been long-term contracts to enhance the development of new renewable sources.

Conclusion

SDG&E appreciates the extensive efforts that the CEC has invested in this IEPR process. To ensure that the process moves ahead with the best interests of ratepayers represented, SDG&E strongly urges that the changes advocated here should be adopted by the CEC in its final Transmittal Report to the CPUC.

05.11.08